

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL THREE)

Docket No. RM2020-10

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-11 OF CHAIRMAN'S INFORMATION REQUEST NO. 3**
(August 14, 2020)

The United States Postal Service hereby provides its responses to the above listed questions of Chairman's Information Request No. 3, issued August 6, 2020. The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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1. The Postal Service states that under the Proposal Three methodology, it will “[u]se [Time and Attendance Collection System (TACS)] data to provide control totals for the portion of supervisor costs incurred on weekdays (Monday – Saturday) by employees whose base craft is carrier, but who have clocked as a supervisor craft, as approved in Order No. 5395.”¹ *Id.* at 4.
 - a. Does the Proposal Three methodology impact supervisors’ costs whose base craft is not carrier?
 - b. If so, please describe how the Proposal Three methodology impacts supervisors’ costs whose base craft is not carrier.

RESPONSE:

- a. Yes, the Proposal Three methodology does impact supervisors’ costs whose base craft is not carrier.
- b. As described in Proposal Seven, which was approved in Order No. 5395:

All other categories of supervisor workhours would be aggregated together and adjusted proportionally to the share of non-Sunday/holiday delivery unit supervisor wage-adjusted workhours. The workhour proportions would be applied to the total accounting costs associated with supervisor positions. In addition, to correctly attribute the reduced costs per hour of city carrier assistants acting as supervisors, an average wage ratio is applied.

Proposal Seven Petition (August 23, 2019) at 2. This methodology is now expanded to Monday – Saturday as well. Therefore, Monday – Saturday carrier acting as supervisor costs and Sunday/holiday supervisor costs are now explicitly

¹ Order No. 5395 approved the use of TACS by Cost Ascertainment Groups (CAGs) to allocate costs for carriers acting as supervisors on Sundays and holidays at customer service facilities. See Docket No. RM2019-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Seven), January 6, 2020 (Order No. 5395). Proposal Three expands “this methodology to all days of the week.” Petition, Proposal Three n.4.

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broken out, and the dollar-weighted tallies for the other categories of supervisor would be aggregated together and adjusted proportionally to their share of costs based on wage-adjusted TACS workhours.

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- 2.** Would the approval of Proposal Three change the modified methodology approved in Order No. 5395? If so, please describe in detail how the methodology would be changed.

RESPONSE:

No, the approval of Proposal Three would not change the modified methodology approved in Order No. 5395, but rather would expand on the same methodology.

Please see the response to question 1.b for further explanation.

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3. Would the approval of Proposal Three change the methodology partially approved in Order No. 4972 (Proposal Two)?² If so, please describe in detail how the methodology would be changed.

RESPONSE:

No, the approval of Proposal Three would not change the methodology partially approved in Order No. 4972 (Proposal Two). The same methodology is utilized in Proposal Three.

² Docket No. RM2018-5, Order Approving in Part Proposal Two, January 8, 2019 (Order No. 4972). Proposal Two included an IOCS-Cluster sample design for city carriers' weekday non-holiday costs which was not approved in that proceeding. Petition, Proposal Three at 2. However, a component of Proposal Two in Order No. 4972 approved the use of TACS workhours to develop city carrier Sunday/holiday cost control totals by office CAG.

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4. Does the current In-Office Cost System (IOCS)-Non-Cluster methodology take into account city carrier hourly pay differences due to:
- a. Overtime pay? If yes, please explain how. If not, please explain why not.
 - b. Salary differences among full-time carriers? If yes, please explain how. If not, please explain why not.
 - c. Salary differences among other city carriers (e.g., part-time, city carrier assistants, etc.)? If yes, please explain how. If not, please explain why not.
 - d. Sunday premium wages? If yes, please explain how. If not, please explain why not.
 - e. Holiday wages? If yes, please explain how. If not, please explain why not.
 - f. Night differential wages for city carriers acting as supervisors? If yes, please explain how. If not, please explain why not.

RESPONSE:

For questions a – f, the current IOCS non-cluster does not take into account the differences in city carrier hourly pay listed in the question. IOCS does account for the significant differences in wage rates between full-time carriers (career) and other carriers (including City-Carrier Assistants, casual, transitional, part-time, etc.) by separately weighting full-time and other craft groups within city carriers.

The IOCS cost weighting system does not account for these differences primarily because it is not necessarily the case that the activities observed at the time of a reading caused the employee's pay status. For example, a carrier's hours in excess of 40 in a service week may be caused by work time spent on activities earlier in the week; such activities would not be observable in IOCS, so the Postal Service is unable to reliably assign overtime pay differences based solely on the pay status at the time of the

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reading. Similarly, a carrier may receive night differential wages, but the cause may be due to earlier activities.

Although TACS can record more detailed information than was available when IOCS was originally designed, the reliability of pay differences has not been thoroughly investigated. While non-cluster IOCS records different pay statuses (i.e. overtime, night differential, Sunday/holiday, etc.), these categories are not utilized when assigning dollar-weights to individual tallies.

For city carriers, premium pay costs are relatively small. In FY2019, Sunday premium costs were \$1.1M, night differential costs were \$15M, and other pay status increases were \$8.9M. Thus, out of the \$16B in total carrier labor costs, only \$25M—less than 0.2 percent—are due to premium pay status increases. By comparison, clerk and mailhandler premium pay costs in Cost Segment (CS) 3 totaled \$331M in FY2019.

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5. Does the proposed IOCS-Cluster methodology take into account city carrier hourly pay differences due to:
- a. Overtime pay? If yes, please explain how. If not, please explain why not.
 - b. Salary differences among full-time carriers? If yes, please explain how. If not, please explain why not.
 - c. Salary differences among other city carriers (e.g., part-time, city carrier assistants, etc.)? If yes, please explain how. If not, please explain why not.
 - d. Sunday premium wages? If yes, please explain how. If not, please explain why not.
 - e. Holiday wages? If yes, please explain how. If not, please explain why not.
 - f. Night differential wages for city carriers acting as supervisors? If yes, please explain how. If not, please explain why not.

RESPONSE:

For questions a – f, the proposed IOCS-Cluster weighting methodology does not take into account the differences in city carrier hourly pay listed in the question, for the same reasons discussed in the response to Question 4 of this Information Request relating to the current IOCS non-cluster methodology. Like non-Cluster IOCS, IOCS-Cluster has the same separate craft groups for full-time carriers (career) and other carriers (including City-Carrier Assistants, casual, transitional, part-time, etc.), which controls for the significant differences in the wage rate between those two groups.

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6. What proportion of city carrier overtime workhours are logged during the afternoon or evening, and what proportion are logged during the morning? Please specify the proportions if the overtime workhours vary by fiscal year quarter, city carrier craft type and office-CAG group.

RESPONSE:

The proportions of city carrier overtime workhours that are logged during the afternoon or evening and during the morning are unavailable. The TACS extract utilized by IOCS does not specify which hour of the clock rings accrued the "overtime" and therefore it may be misleading to allocate the overtime specifically to either the morning or afternoon period. For example, if a carrier was scheduled to come in at 10 am, but was asked by their supervisor to come in earlier, the morning time could trigger the "overtime". Another example would be if a carrier was asked to remain late to finish their route, then the afternoon time would trigger the "overtime". Supervisors have the ability to record when the overtime occurred, but they may not reliably record the specific additional detail codes. These codes are inputted manually which may lead to erroneous data.

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7. Can the city carrier workhours actual hourly rate (accounting for wage and supplemental wage differences) associated with the TACS workhours be identified and used to adjust for cost differences during the week, month, and period under the Proposal Three methodology?
- a. If yes, please discuss how the workhours can be identified and used to adjust for such cost differences and provide the calculations and results of the adjustment(s).
 - b. If not, please explain the reasons and provide any analyses supporting the conclusion that hourly rate information could not or should not be used to adjust for such cost differences.

RESPONSE:

a-b. No, the city carrier workhours actual hourly rate associated with the TACS workhours cannot be identified and used to adjust for cost differences during the week, month, and period under the Proposal Three methodology. As described in the responses to questions 4, 5 and 6 of this Information Request, it is not clear which portion of the carriers workhours are the cause of differences in pay such as for overtime and night differential. The largest source of wage differences, the difference in wage rates between full-time regular and other carriers, is already accounted for by using separate cost control totals for the two groups. Therefore, the benefit is greatly reduced from attempting to account for the much smaller relative wage differences due to other sources, while at the same time the question of causality of the differences in wages has not been resolved.

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8. Under the Proposal Three methodology, for the morning on-site tests, the Postal Service takes repeated measurements during the morning period on the same six carriers randomly selected from the list of eligible employees. Petition, Proposal Three at 4-5.³ Please discuss how the six carriers are sampled and selected such that the number of full-time city carriers, and the number of other city carriers sampled under the Proposal Three morning samples, reflect the proportion and population of city carrier types by office CAG group.

RESPONSE:

The process for selecting the six carriers randomly is as follows. First, the data collector technician and delivery supervisor identify all of the carriers that they believe will be working in the finance number on the day of the test. Once all the carriers are identified, the data collection software will take the reverse of each of the carrier's employee identification numbers (EINs) and utilize a hash function together with a randomizing modulo divisor to order them pseudo-randomly.⁴ The first six employees on the randomized list will be sampled, with employees 7 and 8 available as alternates in case one of the first six employees is unexpectedly on leave. At a finance number level, the simple random sampling allows for a proportional sampling of the types of employees working at the office. The number of carriers sampled from each type of carrier will be approximately proportional to the number that will be working within the finance number

³See Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-15 of Chairman's Information Request No. 12, February 14, 2020, question 7.

⁴ See https://en.wikipedia.org/wiki/Hash_function, subsection "Division hashing". All of the modulo divisors that are used are large 6-digit integers that are relatively prime to all prime numbers up to 31. Reversing the digits of the EIN gives the most volatile digits the greatest impact in the output from the hashing function, ensuring that employees with similar EINs will be far apart after the pseudo-random reordering.

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on the test day. In addition, there are separate control total costs for full-time carriers and for other carriers, which ameliorates any differences in the proportions of number of samples for the two groups.

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9. In Docket No. RM2018-5, under the proposed IOCS-Cluster in that proceeding (Proposal Two), motorized city carrier letter route street time was estimated to be about \$225 million less and walking letter route street time cost was estimated to be about \$214 million greater than the IOCS-Non-Cluster at that time. See Order No. 4972 at 23. The Postal Service stated that there were two reasons for those differences in Proposal Two: (1) the number of eligible carriers in the panel offices was not accounted for in the proposed afternoon sampling methodology; and (2) "current IOCS re-aligns the CAGs of offices depending on whether they were historically included in the CAG A or CAG B panel before 1992."⁵
- a. Please specify whether and how, if applicable, the number of eligible carriers in the panel offices is accounted for in the Proposal Three methodology.
 - b. Please discuss the reasons why, under the Proposal Two methodology, not accounting for the number of eligible carriers in the proposed afternoon sampling methodology would result in a decrease in motorized city carrier letter routes street time costs and an increase in walking city carrier letter routes street time costs.
 - c. Please explain how, under the Proposal Two methodology, not realigning the CAGs of offices' costs that were historically included, or not, in the CAG A or CAG B panel prior to 1992 would cause a decrease in motorized city carrier letter route street time costs and an increase in walking city carrier letter route street time costs.
 - d. Please specify whether, under the Proposal Three methodology, the CAGs of offices' costs that were historically included in the CAG A or CAG B panel prior to 1992 are realigned. If they are realigned, please confirm that the realignment process is the same as the current methodology realignment process and that the TACS workhours are grouped the same way as traditionally done for costs, reflecting the historical 1992 CAG A and B offices panel.⁶ If they are not realigned, please discuss the reasons why not.

⁵ Docket No. RM2018-5, Responses of the United States Postal Service to Questions 1-13, 15-17 of Chairman's Information Request No. 4, September 5, 2018, question 2.a. The Postal Service describes the realignment process under the current methodology as: "[t]allies and costs for offices that used to be in the CAG A/B strata [before 1992] are now all moved to CAG A, no matter their current CAG, while data for offices that were [sic] are now CAG A, but not in the historical A/B strata are moved to CAG B." *Id.*

⁶ In the FY2018 Annual Compliance Report, the Postal Service assigned "the CAG group of TACS workhours in the same way traditionally done for costs, reflecting the historical 1992 CAG A and B panels." See Docket No. ACR2018, Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 22, March 13, 2019, question 4.b.

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RESPONSE:

- a. The number of eligible carriers in the panel offices is accounted for in the Proposal Three methodology by separating the larger CAGs (A, B and C) and the smaller CAGs (D – L). By separating the CAGs into the two groups, the high number of employees in the larger CAGs would not overtake the fewer employees in smaller CAGs. The risk of under sampling small CAGs with far fewer employees is reduced, while ensuring continued sampling of the larger CAGs. Furthermore, after the fact weighting by individual CAGs scales the readings within each CAG to their respective totals. Also, restricting to the panel offices for onsite tests restricts the difference between cluster and non-cluster IOCS offices being tested.
- b. Not accounting in Proposal Two for the for the number of eligible carriers in the proposed afternoon sampling methodology would have led to a higher number employees from CAGs A, B and C being sampled. These larger office CAGs are located in more urban and suburban areas, which typically have relatively more walking routes and relatively fewer motorized routes. Furthermore, no individual CAG weighting was done after the fact in Proposal Two, which would have over weighted the oversampled larger CAGs.
- c. Many of the historically important CAG A offices are in major US cities. By not separating the largest US cities with the highest frequency of walking routes in

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the Proposal Two methodology, the majority of the data would have reflected the information gathered at the largest cities. This would again have skewed the data towards walking routes and away from motorized routes.

- d. The Postal Service confirms that the Proposal Three realignment process is the same as the current methodology realignment process, and that the TACS workhours are grouped the same way as traditionally done for costs, reflecting the historical 1992 CAG A and B offices panel.

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- 10.** Under the Proposal Three methodology, the public impact table shows a decrease in total First-Class Mail cost (\$175.7 million) and increases in total USPS Marketing Mail and Periodicals costs (\$86.3 million and \$60.4 million, respectively).⁷ Petition, Proposal Three at 15. Please discuss the reasons for the decrease in First-Class Mail costs and increase in USPS Marketing Mail and Periodicals costs.

RESPONSE:

Part of the reason for the decrease in First-Class Mail readings and the increase in Marketing Mail and Periodicals may be because data collectors are not as restricted in their time availability as carrier supervisors. The Postal Service also believes that trained data collection technicians (DCTs) are better able than phone respondents to apply IOCS mailpiece selection rules to obtain valid mailpieces to record. In particular, trained DCTs would be expected to be better able to collect representative mailpieces while carriers are working away from their cases, and especially when carriers are preparing to leave for the street and doing final pulldown. DCTs (unlike supervisors) do not have operational responsibilities that potentially conflict with data collection needs at such times. Even though onsite readings for carriers are not uniformly interspersed by time of day or by geography, in general, the distribution factors from IOCS-Cluster tend to be more similar to onsite compared to telephone readings.

⁷ The Proposal Three public impact table includes both office and street costs and the referenced figures include piggyback costs. Petition, Proposal Three at 15.

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11. Please refer to Table 2 in Order No. 4972. It appears that city carrier in-office direct mail labor costs for First-Class Mail are higher in realigned CAG group A offices, while USPS Marketing Mail costs are higher in CAG groups B and C offices.
- a. Please discuss whether the changes in the number of offices sampled and any office or workhours CAG group assignments under the Proposal Three methodology impacted the decrease in First-Class Mail costs.⁸ Please include in your response any analyses or validation of these cost changes under the Proposal Three methodology.
 - b. Please discuss whether the changes in the number of offices sampled and any office or workhours CAG group assignments under the Proposal Three methodology impacted the increase in both USPS Marketing Mail and Periodicals costs. *Id.* Please include in your response any analyses or validation of these cost changes under the Proposal Three methodology.

RESPONSE:

Tables 1, 2 and 3 show direct tallies by product and CAG for the categories shown in Table 2 from Order No. 4972. Table 4 shows direct tallies by quarter.

Table 1: IOCS-Cluster FY20Q2 Year to Date			
Product	In-Office Direct Labor Cost Grouped by Office CAG (\$000)		
	Offices in CAG Group A	Offices in CAG Group B	Offices in CAG Group C
First-Class Single-Piece Letters	\$19,707	\$16,607	\$20,408
First-Class Presort Letters	\$30,718	\$28,219	\$28,511
Periodicals	\$21,121	\$19,604	\$24,639
Marketing Mail Carrier Route	\$24,925	\$28,633	\$33,427
Marketing Mail Flats	\$20,218	\$24,581	\$33,004

⁸ See Petition, Proposal Three at 15.

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Marketing Mail Letters	\$36,430	\$41,801	\$43,338
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Table 2: IOCS Non-Cluster FY20Q2 Year to Date			
Product	In-Office Direct Labor Cost Grouped by Office CAG (\$000)		
	Offices in CAG Group A	Offices in CAG Group B	Offices in CAG Group C
First-Class Single-Piece Letters	\$31,577	\$22,273	\$24,997
First-Class Presort Letters	\$28,749	\$26,151	\$31,314
Periodicals	\$11,055	\$11,031	\$11,322
Marketing Mail Carrier Route	\$13,322	\$15,826	\$19,681
Marketing Mail Flats	\$21,900	\$23,636	\$25,615
Marketing Mail Letters	\$30,899	\$20,689	\$32,910

Table 3: IOCS Non-Cluster FY2019			
Product	In-Office Direct Labor Cost Grouped by Office CAG (\$000)		
	Offices in CAG Group A	Offices in CAG Group B	Offices in CAG Group C
First-Class Single-Piece Letters	\$60,667	\$40,019	\$46,210
First-Class Presort Letters	\$55,003	\$46,994	\$51,329
Periodicals	\$26,002	\$23,401	\$26,169
Marketing Mail Carrier Route	\$39,574	\$47,770	\$67,627
Marketing Mail Flats	\$45,781	\$39,603	\$49,315
Marketing Mail Letters	\$59,720	\$46,967	\$61,007

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Table 4: IOCS Non-Cluster Direct Tallies by Quarter

craclass	FY	FQtr	CAG			CAG w/Max
			A	B	C	
First-Class Single-Piece Letters	FY19	1	\$16,254	\$12,351	\$15,180	A
	FY19	2	\$16,990	\$9,790	\$12,626	A
	FY19	3	\$15,091	\$8,030	\$8,122	A
	FY19	4	\$12,332	\$9,848	\$10,281	A
	FY20	1	\$14,135	\$11,352	\$11,636	A
	FY20	2	\$17,442	\$10,921	\$13,361	A
First-Class Presort Letters	FY19	1	\$12,643	\$11,123	\$15,004	C
	FY19	2	\$14,494	\$13,479	\$13,807	A
	FY19	3	\$13,829	\$12,766	\$11,336	A
	FY19	4	\$14,037	\$9,626	\$11,182	A
	FY20	1	\$14,302	\$11,957	\$16,035	C
	FY20	2	\$14,447	\$14,194	\$15,278	C
Marketing Mail Carrier Route	FY19	1	\$10,016	\$12,479	\$18,051	C
	FY19	2	\$7,416	\$7,066	\$9,767	C
	FY19	3	\$4,547	\$6,942	\$9,954	C
	FY19	4	\$6,413	\$7,200	\$10,639	C
	FY20	1	\$7,669	\$8,867	\$10,502	C
	FY20	2	\$5,653	\$6,959	\$9,179	C
Marketing Mail Letters	FY19	1	\$15,242	\$14,182	\$19,240	C
	FY19	2	\$15,167	\$12,129	\$16,437	C
	FY19	3	\$13,206	\$8,807	\$11,206	A
	FY19	4	\$14,397	\$10,966	\$12,754	A
	FY20	1	\$16,487	\$9,868	\$15,205	A
	FY20	2	\$14,412	\$10,821	\$17,705	C
Marketing Mail Flats	FY19	1	\$14,632	\$12,523	\$16,303	C
	FY19	2	\$9,471	\$8,828	\$12,143	C
	FY19	3	\$10,465	\$8,991	\$10,642	C
	FY19	4	\$11,213	\$9,262	\$10,227	A
	FY20	1	\$11,507	\$11,141	\$13,163	C
	FY20	2	\$10,392	\$12,495	\$12,452	B
Periodicals (Outside)	FY19	1	\$6,955	\$6,470	\$8,487	C
	FY19	2	\$6,653	\$5,008	\$6,682	C
	FY19	3	\$5,530	\$5,310	\$5,517	A
	FY19	4	\$5,409	\$5,103	\$5,200	A
	FY20	1	\$4,428	\$5,876	\$6,342	C
	FY20	2	\$5,753	\$4,529	\$4,523	A

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- a. The Postal Service does not believe the changes in the number of offices sampled and in any office or workhours CAG group assignments under the Proposal Three methodology impacted the decrease in First-Class Mail costs. IOCS-Cluster and the current IOCS system test the same panel offices, therefore, we do not believe the CAG differences in the office sample is a significant cause of the decrease in First-Class Mail costs.

The CAG differences shown in Table 2 from Order No. 4972 are not necessarily structural differences, as they are both subject to sampling variability and reflect past delivery volumes that have changed materially due to ongoing volume losses. As demonstrated in Table 2 and 3 above, the current IOCS distribution for FY2020 Q1 & Q2 and for FY2019 does not follow the same distribution between CAGs that FY2017 had. Table 4 demonstrates that the numerical relationship among CAGs summarized in Table 2 of Order No. 4972 also is not constant over quarters in non-cluster IOCS, primarily due to sampling variability. The relative magnitudes of the tallies by CAG vary for both First-Class products. For First-Class Presort Letters, the CAG with the maximum dollar-weighted tallies, listed in the rightmost column, is not identical over the six quarters from FY2019 to FY2020 Q2. Moreover while the costs are lower in IOCS-Cluster for FY2020 Q1 & Q2, the distributions across CAGs are more similar between IOCS-Cluster and the current non-cluster system than the current system and FY2017.

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- b. The Postal Service does not believe the changes in the number of offices sampled and in any office or workhours CAG group assignments under the Proposal Three methodology impacted the increase in USPS Marketing Mail and Periodicals costs. As noted in the response to part a, IOCS-Cluster tests the same panel of offices as non-cluster IOCS.

As demonstrated in Table 2 above, the Marketing Mail and Periodicals distribution from FY2020 Q1 & Q2 and for FY2019 does not follow the same distribution between CAGs. Table 4 demonstrates that the numerical relationship among CAGs summarized in Table 2 of Order No. 4972 also is not constant over quarters in non-cluster IOCS, primarily due to sampling variability. For Periodicals, USPS Marketing Mail Letters, and USPS Marketing Mail Flats, the CAG with the maximum dollar-weighted tallies, listed in the rightmost column, is not the same over all six quarters of FY2019 and the first two quarters of FY20. Furthermore, the trend in some products, such as Periodicals, between CAG groups in IOCS-Cluster FY2020 Q1 & Q2 more closely align with the FY2017 distribution than the current FY2020 Q1 & Q2 distribution.